INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/196
FOR IMMEDIATE RELEASE
June 3, 2013

International Monetary Fund
Washington, D.C. 20431 USA

Statement on the Third Financial Sector Monitoring Mission to Spain

A staff team from the International Monetary Fund (IMF) visited Madrid May 21-31 for the third independent monitoring mission of the financial sector in the context of the European financial assistance for bank recapitalization, as agreed with the Spanish authorities and the European Commission (EC) on July 20, 2012 (see Terms of Reference). The team met with official and private-sector representatives and presented its preliminary findings to the Spanish authorities and their European partners at the end of the visit. Staff will convey a final report to the authorities and the EC by early July.

The mission found that program implementation remains on track, with action now taken on the vast majority of measures specified in the program's Memorandum of Understanding, as envisaged under its frontloaded timetable. Most notably, actions to recapitalize parts of the banking sector and the asset transfers to SAREB have provided an important boost to the system's liquidity and solvency. At the same time, financial market sentiment has continued to improve since the last monitoring mission, with the risk premium on Spanish sovereign debt now well below its levels at the start of the program. Nonetheless, risks to the economy and hence to the financial sector remain elevated as Spain continues to undergo a difficult process of correcting large pre-crisis imbalances.

Further action at both the euro-wide and Spanish levels could help mitigate these risks and accelerate the return of economic growth. Such euro-wide actions include timely implementation of banking union and ensuring maintenance of a sufficiently accommodative monetary stance. At the Spanish level, priorities include continued pro-active monitoring of financial sector health accompanied by strong supervision. In this regard, the Bank of Spain's recent clarification of criteria for determining the classification of refinanced and restructured loans is welcome. Rigorous application of these criteria should help ensure adequate provisioning for loan losses. Supervisory actions to bolster solvency and reduce risks should also give priority to measures that, while boosting banks' capital situation, do not contribute to exacerbating already-tight credit conditions.

Timely completion of several reforms initiated under the program would also support financial stability. These include burden-sharing exercises, changes to the Bank of Spain's

supervisory procedures (taking into account also the forthcoming Single Supervisory Mechanism), and adoption of a savings bank reform that sets effective incentives for former savings banks to gradually divest their controlling stakes in commercial banks (a draft law is currently under review within the government).

The fourth financial sector monitoring mission is expected to take place in September 2013.